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16 UNITED STATES DISTRICT COURT
17 NORTHERN DISTRICT OF CALIFORNIA
18 SAN JOSE DIVISION

19 In re CISCO SYSTEMS, INC.
SECURITIES LITIGATION

Case No. C-01-20418-JW

22 This Document Relates To:
23 ALL ACTIONS.

**DECLARATION OF DENNIS D. POWELL IN
SUPPORT OF MOTION FOR SUMMARY
JUDGMENT**

24
25 Date: June 12, 2006
Time: 9:00 a.m.
26 Place: Courtroom of The Honorable James Ware
27
28

1 I, Dennis D. Powell, declare:

2 1. I am a Senior Vice President and Chief Financial Officer (“CFO”) of Cisco
3 Systems, Inc. (“Cisco” or the “Company”). I submit this declaration in support of defendants’
4 motions for summary judgment. I have personal knowledge of the facts stated below, and could
5 testify competently to such facts.

6 2. I joined Cisco in 1997, as Vice President, Worldwide Corporate Controller, where
7 my responsibilities included, among other things, global financial reporting, international tax
8 strategies and implementation, and corporate procurement. I reported to Larry Carter, Cisco’s
9 Chief Financial Officer at the time. I served as Controller throughout the class period in this
10 litigation. I am not a defendant in this litigation.

11 3. Prior to joining Cisco, I had worked for 26 years at Coopers & Lybrand LLP,
12 where I was a senior audit partner. I also served as a National SEC reviewer for the firm, and was
13 responsible for reviewing filings by clients of other partners to ensure compliance with Generally
14 Accepted Accounting Principles (“GAAP”) and SEC regulations, and also had regional
15 responsibilities for audit quality assurance reviews in the United States. I am a member of the
16 American Institute of Certified Public Accountants (AICPA) and Financial Executives
17 International. I served on the FDIC Advisory Committee on Banking Policy, and have provided
18 testimony on financial reporting matters for the Senate Banking Committee and the House
19 Finance Subcommittee. I am also on the board of directors of Intuit, Inc., and serve as the
20 chairman of its audit committee.

21 **Cisco’s Finance and Accounting Team**

22 4. The management team that I supervised in accounting and finance during the
23 relevant period was extremely experienced and qualified. Key positions were held by employees
24 who were certified public accountants or had many years of experience at leading accounting
25 firms or in the accounting and finance departments of public companies. This group included at
26 various times during the class period the following people: (a) Jonathan Chadwick, Cisco’s
27 Senior Director of Corporate Accounting, and later Senior Director, Corporate Finance and
28 Planning, who was responsible for overseeing managers responsible for areas such as revenue

1 accounting, external reporting, fixed assets, payroll and general accounting; (b) Dan Salhus,
2 Senior Manager, Corporate Finance, who was responsible for Cisco's consolidated profit and loss
3 statement and balance sheet review; (c) Mrinalini Ingram, Senior Manager, Corporate Revenue
4 Accounting, who was head of Cisco's Corporate Revenue team starting in March 2000, and was
5 responsible for revenue recognition and revenue-related reserves; (d) Tom Cupples, Senior
6 Manager, Corporate Revenue Accounting, who was head of Cisco's Corporate Revenue team
7 prior to Ms. Ingram; (e) Rory Snyder, Cisco Capital Controller until November 2000, who was
8 responsible for loan and lease accounting at Cisco Capital; and (f) Sue Perkins, a senior
9 accountant and later Cisco Capital Controller, succeeding Mr. Snyder, who was responsible for
10 loan and lease accounting at Cisco Capital. In addition to the team reporting to me, I also worked
11 with other individuals, including Frank Atter, Senior Director of Finance for Manufacturing, who
12 oversaw a team in the manufacturing finance organization in charge of, among other things, cost
13 and inventory accounting for Cisco, and Dawn Hartman, Director, Manufacturing Finance, who
14 worked in the manufacturing finance organization and was responsible for overseeing the
15 calculation of inventory reserves.

16 5. At all relevant times, I instructed these people to carefully examine all necessary
17 data and use their best professional judgment to make appropriate accounting decisions, and that
18 the overriding principle applicable to Cisco's revenue recognition and reserve policies was one of
19 conservatism to ensure the integrity and accuracy of the Company's financial statements. I also
20 instructed the teams to consult with PricewaterhouseCoopers LLC ("PwC"), as did I, to ensure
21 that appropriate decisions were made. In addition, I regularly communicated with these
22 individuals and their teams to satisfy myself that our policies and procedures were appropriate
23 and being applied consistently.

24 6. Each of these individuals, in turn, had a team of accountants and finance personnel
25 working with them and supporting them. While certain finance or accounting teams provided
26 support to other groups (for example, sales or manufacturing), they were independent of those
27 groups and reported only to the finance organization. In total, over 100 individuals worked in the
28 accounting and finance group to generate Cisco's financial statements and publicly reported

1 results.

2 7. PwC served as Cisco's outside auditors. PwC accountants were present at Cisco
3 virtually continuously, and in addition to performing standard audit, review and testing work,
4 were consulted on the formulation of accounting policies, procedures and internal controls, and as
5 well as on day-to-day accounting questions as they arose. PwC representatives also attended a
6 variety of key meetings related to Cisco's accounting determinations.

7 **Cisco's Monthly and Quarterly Close Process**

8 8. In the weeks leading up to the close of each fiscal month and quarter at Cisco, a
9 series of meetings would be held in various accounting and finance departments to review the
10 results in their respective areas of responsibility. These meetings would ultimately culminate in a
11 month-end "close meeting," which would take place three days after the last day of each fiscal
12 month, where key aspects of Cisco's corporate accounting were reviewed, and the final reported
13 numbers were confirmed. The particulars of the close meetings are set forth later in this
14 declaration. The key processes relating to Cisco's inventory reserves, revenue-related reserves,
15 and recognition of revenue leading up to the close meeting, were as follows:

16 (a) In the case of excess or obsolete inventory, Cisco's reserve was an estimate
17 about whether the Company would be able to sell its on-hand and on-order inventory in a
18 reasonable period (the ensuing twelve months) at a price that would cover its costs for the
19 inventory. To the extent that Cisco had more inventory than it predicted it could use within that
20 time, the amount would be reserved. The calculation of the reserve for excess and obsolete
21 inventory would begin with numerous accounting personnel in manufacturing finance calculating
22 the reserves that would be required for each of several thousand individual inventory items, in
23 accordance with Cisco's detailed inventory reserve policy. They did this by examining the
24 specific inventory Cisco had on-hand and on-order (whether in the form of raw materials, work-
25 in-progress or finished goods), and comparing those amounts to Cisco's then current forecasts
26 generated by Cisco's various business units, as ultimately reflected in the Master Demand
27 Schedule (or "MDS"). The results of that review would then be consolidated by manufacturing
28 finance into a corporate reserve for excess and obsolete inventory. The reserve amount produced

1 by this process was then verified at a separate inventory reserves meeting that took place three
2 days before the close of each month. Mr. Atter, Ms. Hartman and one or more of Ms. Hartman's
3 direct reports and I would typically be present at this meeting. The work performed by the
4 manufacturing finance team would then be included for presentation at the monthly close meeting.

5 (b) Revenue on transactions with standard terms and conditions would be
6 recognized upon shipment (in the case of an end-user customer), subject to various allowances for
7 issues such as warranty or product returns. Revenue on deals with non-standard terms would
8 typically be deferred until all contingencies were resolved. These deals were tracked in a
9 proprietary database developed at Cisco called RevTrak (which would later be upgraded and
10 renamed CCRM), which allowed the corporate revenue team and controller assigned to the deal
11 to track associated issues and determine appropriate reserves. Each of Cisco's five geographical
12 theatres would hold monthly meetings to discuss non-standard deals in their particular area, with
13 approximately a dozen people in attendance at each such theatre meeting, including members of
14 the corporate revenue team and the sales controllers in the respective theatres. Subsequently,
15 revenue recognition would also be discussed at a monthly corporate revenue recognition meeting,
16 which was run by the corporate revenue group headed up by Mr. Cupples and later Ms. Ingram.
17 Ten to fifteen people, often including myself, would be in attendance for the entire meeting, and
18 an additional fifteen to twenty people would attend and/or make presentations for certain portions
19 of this meeting. Materials would then be generated for discussion at the monthly close meetings.

20 (c) Meetings were also held to review revenue-related reserves and deferrals.
21 These meetings, which also occurred each month, were run by the corporate revenue team,
22 headed up by Mr. Cupples and later Ms. Ingram, and had more than a dozen persons present at
23 various points in time. Presentations would be given by various accounting personnel on the
24 revenue-related reserves that were assigned to them, such as bad debt, Cisco Capital lease and
25 loan reserves, and corporate accounts receivable reserves, among others. Each of those
26 presentations would set forth the reserves proposed by the respective reserve teams and the
27 underlying data and methodology behind them. After the reserves were reviewed and vetted by
28 the corporate revenue team and others present, materials memorializing the proposed reserves and

1 deferrals would be generated for discussion at the monthly close meeting.

2 9. During the close meetings, each of the teams responsible for different areas of
3 Cisco's accounting would make presentations regarding their conclusions, whether on revenue
4 recognition, revenue-related reserves, expenses or inventory reserves, among many other topics,
5 and respond to any questions. It was my responsibility to run these meetings. Because we
6 segregated their duties, each of these teams would depart after making their presentation.
7 Collectively, about 15-20 people made presentations throughout the day of the close meeting. A
8 group of the most senior people in the finance group, such as Mr. Chadwick, David Rogan (Vice
9 President, Cisco Capital), Richard Timmins (Vice President, Worldwide Sales Finance), Michael
10 Ashby (Vice President, Corporate Finance) and I would attend the full meeting. Mr. Carter, the
11 CFO, would typically be in attendance in months where the quarter was being closed, and would
12 attend other close meetings as his schedule permitted. A "close binder" containing the results in
13 each major area with supporting documentation would be distributed at the meeting to between
14 twelve and sixteen people (including PwC). Other than Mr. Carter, no Cisco defendant attended
15 these meetings.


16 10. At no time during the close meetings, or at the pre-close meetings that I attended
17 referred to above, did any person express a belief that Cisco had improperly stated its inventory or
18 revenue-related reserves, or had incorrectly recognized revenue or understated its expenses. Nor
19 did I, or anyone else, change any numbers recommended by the accounting staff following the
20 close meeting that affected Cisco's net earnings. To the contrary, I believed at all times that these
21 numbers accurately reflected Cisco's financial results, and that they were reported correctly.

22 11. Cisco has never had to restate its financial results due to mistakes or improprieties,
23 nor has the Company ever been subject to action by regulators with regard to its accounting or
24 financial statements. Cisco has also consistently received clean audit opinions on its financial
25 statements from its outside auditors at PwC. Based on all the information available to me,
26 including my personal knowledge of Cisco's policies and procedures, my own work, the work
27 performed by the various teams described above, and communications with PwC, I believe that at
28 all times Cisco's reported financial results were accurately stated and in compliance with GAAP.

1 12. On April 16, 2001, after the class period in this litigation, Cisco announced that it
2 would be taking an inventory charge, in light of a dramatic and unanticipated slowdown in
3 demand (that charge, taken in the third quarter of fiscal 2001, ended up being about \$2.25
4 billion). Certain restructuring charges were taken at the same time. Following that
5 announcement, Cisco was contacted on an informal basis by the Staff of the Securities and
6 Exchange Commission concerning the inventory and restructuring charges. We prepared a
7 detailed presentation and reviewed it during a meeting with the SEC on July 24, 2001. I was
8 among the attendees at that meeting, as were Mr. Carter, Ms. Hartman and Steve Meisel, a partner
9 at PwC. There were numerous representatives of the SEC Staff present, including Lynn Turner,
10 who at the time was the SEC's Chief Accountant. We discussed, among other topics, Cisco's
11 methodology for establishing its reserve for excess and obsolete inventory, as set forth above, and
12 the circumstances that led to and the timeliness of our write-off. Following this meeting, and the
13 production of some additional information, the SEC did not contact us further and took no action
14 against Cisco or any of its officers, directors or employees. PwC also independently examined
15 the write-off and determined that no adjustment to Cisco's prior period results was required.

16 I declare under penalty of perjury under the laws of the United States that the foregoing is
17 true and correct. This declaration is being executed on this 10th day of March, 2006, at

18 Saratoga, California

19 
20 Dennis D. Powell

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FENWICK & WESS LLP
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